

Leasehold Improvements

General

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on BOE 571L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

Scope of Review

The BOE's assessment practices survey team evaluates the assessor's practices and procedures with respect to the assessment of leasehold improvements.

The specific areas of review may include, but are not limited to, the following:

General Program Elements

- Does the assessor have written procedures, policies and/or forms regarding the discovery and assessment of leasehold improvements?
- How are leasehold improvements assessed?
 - To the lessor/landlord
 - To the tenant
- What does the assessor do with reported leasehold improvement costs?
 - Investigate all reported leasehold improvement costs?
 - Investigate all reported leasehold improvement costs with the exception of repair/maintenance items?
 - Investigate only those reported costs exceeding a certain minimum threshold amount? If so, what is the minimum threshold amount?

- What information is identified in the real property records?
 - The valuation method used if leasehold improvements are assessed on the real property account?
 - The leasehold improvement assessee?
 - Any leasehold improvements removed from the leased property?
- When an audit is conducted, does the auditor review the real property record to determine if leasehold improvements are assessed on the real property account?
 - If a duplicate assessment of leasehold improvements is discovered during an audit, how is the duplicate assessment addressed?

Discovery

- How does the assessor discover leasehold improvements:
 - Business Property Statements (BPS)?
 - Building permits taken out by tenants?
 - Landlord list of tenants?
 - Commercial/Industrial property leases?
 - Other method?

Coordination

- Does the assessor use a standardized referral form or document to communicate leasehold improvement information between real property and business property staff?
 - Is this form or document retained in the records?
 - Does the form or document require a mandatory response to the originating division to document the action taken regarding the information on the form?
 - Is the form or document tracked to ensure follow-up by each section?
- If a standardized referral form or document to communicate leasehold improvement information is not used, what is the assessor's procedure of communicating leasehold improvement information between real property and business property staff?

Classification

- How does the assessor classify leasehold improvements?
 - Structure?
 - Fixture?
 - Both?
- How does the assessor classify fixed machinery and equipment?
 - Personal property?
 - Fixture?

Assessment

- With regard to structure leasehold improvements:
 - Who does the assessor assess structure leasehold improvements to?
 - The tenant?
 - The landlord?
 - What division conducts the valuation of structure leasehold improvements?
 - Real Property?
 - Business Property?
 - Does the assessor include the value of the structure leasehold improvements in the structure value or is it separately assessed?
 - What valuation methods are used?
 - Are structure leasehold improvements valued at the lower of the factored base year value or the current market value?
 - Does the assessor issue supplemental assessments?
- With regard to fixture leasehold improvements?
 - Who does the assessor assess fixture leasehold improvements to?
 - The tenant?
 - The landlord?
 - What division conducts the valuation of fixture leasehold improvements?
 - Real Property?
 - Business Property?
 - Does the assessor include the value of the fixture leasehold improvements in the structure value or is it separately assessed?
 - What valuation methods are used?
 - Are fixture leasehold improvements valued at the lower of the factored base year value or the current market value?
 - Does the assessor issue supplemental assessments?
- How does the assessor handle the assessment of leasehold improvements under the following circumstances:
 - Interior of the leased space is completely replaced/remodeled by the landlord or existing tenant.
 - Leasehold improvements are abandoned.
 - Existing tenant is replaced by a new tenant who installs new leasehold improvements.
 - Landlord sells the property.